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December 22, 2005

Sandra Gray, Chairwoman
Board of Trustees
Twentynine Palms Cemetery District
5350 Encelia Avenue
Twentynine Palms, CA 92277

**SUBJECT: MANAGEMENT LETTER - TWENTYNINE PALMS CEMETERY
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Background. California Government Code, Section 26909, requires that each special purpose district have an annual audit of its accounts and records. To comply with Section 26909, we have audited the Twentynine Palms Public Cemetery District financial accounting for the fiscal year ending June 30, 2005. Previously an audit for the fiscal year ending June 30, 2004 was conducted, and an audit report was issued in October 2004. The report disclosed a need for improvement in several financial internal controls.

Scope. Our audit reviewed financial internal controls used for financial accounts and records. We reviewed policies, and procedures for cash receipting, bank statement reconciliations, fuel use, recording payments of invoices, asset validation, collections, and sales records. Our review primarily consisted of reviewing various documents for the fiscal year ending June 30, 2005.

FINDINGS AND RECOMMENDATIONS

Finding 1: The District's investments mature beyond five-year limit established by Government Code 53601.

Government Code 53601 states investments by local agencies are not to exceed five years maturity, unless the legislative body has granted express authority. In addition,

Finding 1: - Continued

investments should have a rating of "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Our review disclosed the following:

- Investments of \$243,328 were made with a maturity exceeding five years. The maturity of the investments ranged from six to ten years.
- District investments, valued at approximately \$100,375, were shown as unrated by Bloomberg Security Description as of June 29, 2006.

Discussions with the Board Chairwoman and a review of board minutes did not indicate approval for the investments whose maturity exceeded five years.

Recommendation

The District's Board of Trustees should consult legal counsel to ensure the District is meeting the requirements of Government Code 53601 and any other statute govern special district investment activities.

Finding 2: Cash receipt controls could be improved.

We noted the following cash receipting weaknesses during our review:

- The collections deposited in the clearing bank accounts were not always transferred to the County Treasurer in a timely manner or correct amount. For example:
 - Collections for the month of July 2004 were transferred to the County Treasurer on September 8, 2004, over 30 days after the close of the month.
 - The District erroneously recorded the January 2005 receipts transfer to the County Treasurer as \$3,223.42 instead of \$3,823.42, a difference of \$600.00. The error was discovered and corrected on August 3, 2005.
- The auditor noted the June 2005 bank statement reconciliation was not signed and approved by authorized personnel.

Finding 2: - Continued

An October 2004 management letter disclosed similar conditions, and recommended the Board of Trustees establish procedures to improve cash receipting control weaknesses. However, the procedures were not established and implemented. The absence of effective safeguarding policies and procedures may result in theft going undetected, compromising the District's assets and reputation.

Recommendation

The District's Board of Trustees should establish and implement written policies and procedures, which should be communicated to all personnel including temporary or part-time staff:

- Transfer the collections deposited in the clearing bank accounts to the County Treasurer in a timely manner and in the correct amount to ensure revenues are safeguarded.
- Obtain one of the Board of Trustees signatures on bank statement reconciliations, and approval by the Board, noting the approval in the Board minutes.

Finding 3: There were no written policies for fuel use.

An October 2004 audit report disclosed similar conditions, and recommended the Board of Trustees to establish procedures for fuel reimbursements, and communicate those procedures to the staff. During our field work, we noted the District's Board of Trustees took action in their September 16, 2004 meeting to instruct the secretary that gas reimbursements are to be done on travel vouchers. However, a written policy had not been established and communicated to the staff. Without established written policies the Board of Trustees risks the unauthorized use, and costs of fuel, for the Twentynine Palms Cemetery District.

Recommendation

The District's Board of Trustees should establish, and implement procedures for the use of the District's fuel.

Finding 4: Sales contracts were not pre-numbered.

Pre-need contracts were not pre-numbered. Pre-numbered sales contracts help detect theft and ensure all pre-need payments are accounted for.

Recommendation

Board of Trustees should ensure all pre-need contracts are pre-numbered.

Management's Response

During the time period of this audit the office clerk was in the process of being trained. We are going to take steps to ensure that all of the findings and recommendations, stated above, are reviewed with the new employee. All recommended changes will be implemented, or already have been corrected. We have contacted our investment company and have related the above findings and recommendation and they are in the process of bringing the investment portfolio into compliance with Government Code 53601.

We appreciate the courtesy extended to us during our audit. We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/~~Controller-Recorder~~

By:

Asdghik Kiwanian
Internal Auditor II

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